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RESEARCH
DEPARTMENT

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COMPARATIVE VALUES NATIONAL BISCUIT COMPANY

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"NABISCO"

**Change in Management Expected to Result In Increased
Operating Efficiency -- Excess Profits Tax Repeal
Should Add Over \$1 Per Common Share to Earnings.**

A new management was installed in the National Biscuit Company a few months ago. Sweeping changes in personnel and in policy are expected to bring about an increase in operating efficiency of the company, and to result in a number of economies, thereby increasing income. News of this change has resulted in an advance in the common stock during recent weeks.

National Biscuit, the traditional leader in its field, has lagged behind other stocks in its group. The situation deserves close watching to determine whether the new management will be able to bring the company back to its former earning power.

For a period of years, the trend of earnings has been unfavorable, but in 1944 in spite of higher taxes, net income available for dividends increased slightly. If there had been no Excess Profits Taxes and only a 38% normal and surtax, the 1944 income would have been \$2.63 a share on the common stock, after preferred dividends, but before contingent reserves. Contingency reserves and foreign taxes amounted to about 40¢ a share. Actual reported earnings in 1944 were \$1.16 a share.

For 1945 the company is expected to report slightly higher profits than for last year. The company will, of course, benefit immediately after the turn of the year from the change in the tax rates and if the hopes of the present management are even partially realized, National Biscuit may again deserve to be placed in the group of investment grade issues that normally sell at a high price-earnings ratio.

Organized in 1889: National Biscuit Co. was incorporated in New Jersey in 1889 as a merger of three companies, which had been in business for many years before. It has acquired a large number of other companies in this industry of which the most important is the Shredded Wheat Co. which operates in the United States, Canada and Great Britain. National Biscuit products include almost 500 varieties, mostly packaged goods, including biscuits, crackers, cereals, ice cream cones, and dog biscuits.

Leading products are sold under well-known names, such as, Uneeda Biscuit, Fig Newtons, Social Tea, Lorna Doone, Ritz, Shredded Wheat, and Wheatworth.

Sales of these products are nationwide and all but a small portion are delivered in the company's own trucks. There are 257 distributing branches for the 47 bakeries in 23 states of the United States. The largest of these bakeries is in New York City, with other large ones in Chicago, Buffalo, Philadelphia, Pittsburgh, Cambridge, Los Angeles and Kansas City. There are 18 plants which make and distribute bread and soft cake. Manufacturing and distributing in Canada is through the wholly owned subsidiary, Christie Brown & Co. Ltd. National Biscuit produces about 80% of its wheat flour requirements from its own mills and it has a printing plant, paperboard mill, carton plant, repair shops for its motor trucks, and other subsidiary properties.

Long Record of Dividend Disbursements: Company has no funded debt. Outstanding capitalization consists of 248,045 shares of 7% cumulative preferred stock, par \$100, which is noncallable, and 6,289,448 shares of \$10 par common stock. Dividends have been paid in full on the preferred in every year since the company was organized, and the common stock has received dividends in every year since soon after the company's organization. The original common stock was of \$100 par value, but this was changed to \$25 par in 1922 with four shares of new for one old share, with a 2 1/2 for 1 split in 1930. On the present \$10 par value stock, dividends ranged from \$2.80 to \$1.80 per share for 1931 to 1936. In 1937-1939 inclusive, payments were \$1.60, with \$1.20 for 1940, \$1.60 in 1941, \$1.40 in 1942, and a \$1.20 rate from 1943 to date.

NATIONAL BISCUIT COMPANY

"NABISCO"

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For 1945 the company is expected to report slightly higher profits than for last year. The company will, of course, benefit immediately after the turn of the year from the change in the tax rates and if the hopes of the present management are even partially realized, National Biscuit may again deserve to be placed in the group of investment grade issues that normally sell at a high price-earnings ratio.

Organized in 1889, National Biscuit Co. was incorporated in New Jersey in 1889 as a merger of three companies, which had been in business for many years before. It has acquired a large number of other companies in this industry of which the most important is the Shredded Wheat Co., which operates in the United States, Canada and Great Britain. National Biscuit products include almost 500 varieties, mostly packaged goods, including biscuits, crackers, cereals, ice cream cones, and dog biscuits.

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Sales of these products are nationwide and all but a small portion are delivered in the company's own trucks. There are 327 distributing branches for the 47 bakeries in 23 states of the United States. The largest of these bakeries is in New York City, with other large ones in Chicago, Buffalo, Philadelphia, Pittsburgh, Cambridge, Los Angeles and Kansas City. There are 18 plants which make and distribute bread and soft cakes. Manufacturing and distributing in Canada is through the wholly owned subsidiary, Christie Brown & Co. Ltd. National Biscuit produces about 60% of its wheat flour requirements from its own mills and it has a printing plant, paperboard mill, cotton plant, repair shops for its motor trucks, and other subsidiary properties.

Long Record of Dividend Disbursements: Company has no funded debt. Outstanding capitalization consists of 248,045 shares of \$10 cumulative preferred stock, par \$100, which is noncallable, and 6,285,448 shares of \$10 par common stock. Dividends have been paid in full on the preferred in every year since the company was organized, and the common stock has received dividends in every year since soon after the company's organization. The original common stock was of \$100 par value, but this was changed to \$25 par in 1922 with four shares of new for one old share, with a 2 1/2 for 1 split in 1930. On the present \$10 par value stock, dividends ranged from \$2.80 to \$1.80 per share for 1931 to 1936. In 1937-1939 inclusive, payments were \$1.60, with \$1.20 for 1940, \$1.40 in 1941, \$1.40 in 1942, and a \$1.50 rate from 1943 to date.

Earnings: In the 1920's the best earnings before taxes in any years were from \$21,000,000 to \$22,000,000. This rate was not exceeded until 1943 when nearly \$25,000,000 net was shown before taxes, and this in turn was greatly exceeded in 1944 with \$29,368,447 net. Taxes, however, showed a great increase, principally for the excess profits item, in 1944.

The following are the main items of the 1944 and 1943 reports:

	<u>1944</u>	<u>1943</u>
Gross Income	\$223,634,243	\$199,063,850
Net Before Taxes	29,368,447	24,806,866
Federal Taxes	18,889,596	14,209,504
Net Available for Dividends	10,478,851	10,597,362

Before reserves, the above earnings equalled \$1.39 a share on the common for 1944, and \$1.41 in 1943. Last year, \$1,439,643 provision for post-war contingencies brought net on the common to \$1.16 a share, against \$1.10 in 1943 when the reserves had been larger.

Earnings had been substantially higher in previous decades, amounting to above \$3 a share annually on the present stock in the late 1920s and close to \$3 in the early 1930s. In the later 1930s the annual average was about \$1.70. The goal of the new management is to reacquire the former earnings levels.

In the first nine months of 1945, net equalled \$1.03 a share on the common against \$1.00 for the corresponding period in 1944.

Working Capital: Company's current asset position is strong. At the end of 1944, cash amounted to \$18,513,701, U.S. Government bonds \$21,553,000, Accounts Receivable \$6,131,054, and Inventories \$24,936,753, with total current assets, \$72,123,549. Current liabilities were \$30,175,659, leaving net working capital of \$41,947,890. At the end of 1944, the company eliminated all intangibles from its balance sheet, to the extent of \$14,369,629, deducting that amount from its assets and a corresponding amount from surplus accounts.

Market Action of the Stock: The common stock during most of 1943, 1944, and the first-half of 1945, sold at not far from 20, at a time when many other high-grade issues were making substantial advances. After the new management took over, National Biscuit for the first time in years began to show "life", and recently it sold at 33½, the highest level since 1936, when its best price was 38½. In the 1920s, it had been "a blue chip" stock, with its 1929 high of 236½ on the old stock the equivalent of 94½ on the present stock. At the worst stage of the depression in 1932, its low was 20¼, from which it rebounded to a high of 46 7/8 that year, and to 60 5/8 in 1933. When the downtrend in earnings developed, it made a low of 13 in 1942.

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November 2, 1945.

Earnings: In the 1930's the best earnings before taxes in any year were from \$21,000,000 to \$22,000,000. This rate was not exceeded until 1943 when nearly \$28,000,000 net was shown before taxes, and this in turn was greatly exceeded in 1944 with \$50,368,447 net. Taxes, however, showed a great increase, particularly for the excess profits item, in 1944.

The following are the main items of the 1944 and 1943 reports:

1944	1943
Gross Income	\$22,000,000
Net Before Taxes	\$21,000,000
Federal Taxes	\$1,000,000
Net Available for Dividends	\$20,000,000

Before reserves, the above earnings equaled \$1.39 a share on the common for 1944, and \$1.41 in 1943. Last year, \$1,450,000 provision for post-war contingencies profit was on the common to \$1.16 a share, again \$1.10 in 1943 when the reserves had been larger.

Earnings had been substantially higher in previous decades, amounting to above \$2 a share annually on the present stock in the late 1920s and close to \$3 in the early 1930s. In the later 1930s the annual average was about \$1.70. The goal of the new management is to recapture the former earnings levels.

In the first nine months of 1944, net equaled \$1.05 a share on the common against \$1.00 for the corresponding period in 1943.

Working Capital: Company's current asset position is strong. At the end of 1944, cash amounted to \$18,515,701, U.S. Government bonds \$21,000,000, Accounts Receivable \$5,151,054, and inventories \$24,936,133, with total current assets, \$72,122,949. Current liabilities were \$50,175,059, leaving net working capital of \$21,947,890. At the end of 1944, the company eliminated all intangibles from its balance sheet, to the extent of \$14,509,629, deducting that amount from its assets and so corresponding amount from surplus accounts.

Market Action of the Stock: The common stock during most of 1943, 1944, and the first half of 1945, sold at not far from 20, at a time when many other high-grade issues were making substantial advances. After the new management took over, National Biscuit for the first time in years began to show "life", and recently it sold at 37 1/2, the highest level since 1935, when the best price was 28 1/2. In the 1920s, it had been "a blue chip" stock, with its 1929 high of 25 1/2 on the NY stock exchange, the worst stage of the depression in the valuation of 1944 on the present stock. At the low of 1933, from which it rebounded to a high of 45 1/4 that year, and to 60 3/8 in 1937, when the downward movement developed, it made a low of 13 in 1932.

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